AMENDED IN SENATE AUGUST 30, 2005

AMENDED IN SENATE JUNE 27, 2005

AMENDED IN ASSEMBLY MAY 26, 2005

AMENDED IN ASSEMBLY MARCH 10, 2005

CALIFORNIA LEGISLATURE—2005–06 REGULAR SESSION

# ASSEMBLY BILL No. 168

**Introduced by Assembly Member Ridley-Thomas**
(Principal coauthor: Senator Migden)
**(Coauthor: Assembly Member Arambula)**

January 19, 2005

An act to add Article 2.2 (commencing with Section 13310) to Chapter 3 of Part 1 of Division 2 of Title 2 of, and to repeal Section 13305 of, the Government Code, relating to state government.

LEGISLATIVE COUNSEL'S DIGEST

AB 168, as amended, Ridley-Thomas. State government: tax expenditure reports.

Existing law requires the Department of Finance to provide an annual report to the Legislature on tax expenditures, containing specified information.

This bill would repeal that provision and would*, to the extent feasible and resources are available,* require the Department of Finance to submit, biennially, to the Legislature and the Legislative Analyst a report, based upon a dynamic revenue analysis, as defined, of the estimated revenue losses attributable to tax expenditures ~~in the immediately preceding fiscal year~~ *for each of the 2 most recent fiscal years*, as specified. *This bill would require the report to be provided, based upon a static revenue analysis, as defined, if resources are not* *available to provide the report based upon a dynamic revenue analysis.* This bill would require the Franchise Tax Board and the State Board of Equalization to provide, annually, to the Legislature, the Department of Finance, and the Legislative Analyst a report, based upon a static revenue analysis~~, as defined,~~ of the estimated revenue losses attributable to each tax expenditure, as specified, that was administered by the boards during the fiscal year that preceded the date of the report. This bill would require the Legislative Analyst to review the reports and make recommendations to the Legislature as to which tax expenditures should be modified or repealed.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

*The people of the State of California do enact as follows:*

SECTION 1. This act shall be known, and may be cited, as the California Tax Expenditure Accountability Act.

SEC. 2. Section 13305 of the Government Code is repealed.

SEC. 3. Article 2.2 (commencing with Section 13310) is added to Chapter 3 of Part 1 of Division 2 of Title 2 of the Government Code, to read:

Article 2.2. Tax Expenditure Reports

13310. For purposes of this article:

(a) "Tax expenditure" or "tax expenditures" means a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by state law.

(b) "Static revenue analysis" means the historical method used by the State Board of Equalization and the Franchise Tax Board for evaluating tax expenditures that takes into account only the most direct economic responses to tax expenditures.

(c) "Dynamic revenue analysis" means the historical method used by the Department of Finance for evaluating tax expenditures based upon assumptions that estimate the probable behavioral responses of taxpayers, businesses, and other citizens to those tax expenditures, and that includes a statement identifying those assumptions.

13311. On or before November 15, 2006, and on or before each November 15th of each year thereafter, the Franchise Tax

Board shall provide to the Legislature, the Department of Finance, and the Legislative Analyst, a report, based upon a static revenue analysis, of the estimated revenue losses attributable to each tax expenditure, to the extent feasible, relating to taxes administered by the board during the fiscal year that preceded the date of the report that produced a revenue loss in excess of twenty-five million dollars ($25,000,000).

13312. On or before November 15, 2006, and on or before each November 15th of each year thereafter, the State Board of Equalization shall provide to the Legislature, the Department of Finance, and the Legislative Analyst, a report, based upon a static revenue analysis, of the estimated revenue losses attributable to each tax expenditure, to the extent feasible, relating to taxes administered by the board during the fiscal year that preceded the date of the report that produced a revenue loss in excess of twenty-five million dollars ($25,000,000).

13313. (a) On or before February 1, 2007, and on or before January 15th of each odd-numbered year thereafter, *to the extent feasible and resources are available,* the Department of Finance shall provide to the Legislature and the Legislative Analyst a report, based upon a dynamic revenue analysis together with the assumptions and information used in the analysis, of the estimated revenue losses attributable to tax expenditures ~~in the immediately preceding fiscal year~~ *for each of the two most recent fiscal years*.

(b) The report shall compare the estimated revenue losses under this section with those provided under Sections 13311 and 13312.

(c) The report shall contain the following information, to the extent feasible:

(1) An estimate of revenue loss ~~for the most recent fiscal year~~ for each tax expenditure.

(2) The following information, based on information provided by the Franchise Tax Board, or by the State Board of Equalization in the case of sales and use tax expenditures that are separately identified on returns or claims, to the extent feasible:

(A) The number of tax returns or taxpayers affected by the tax expenditure.

(B) The distribution of each tax expenditure, as follows:

(i) For tax expenditures available to businesses, by size of the business or industry, by size of total receipts, and by type of business or industry.

(ii) For tax expenditures under the Personal Income Tax Law, by adjusted gross income brackets.

(d) This section shall apply only to those tax expenditures reported under Sections 13311 and 13312 that produced revenue losses in excess of twenty-five million dollars ($25,000,000) for the applicable fiscal year.

(e) Each report made pursuant to this section shall include 2 to 10 tax expenditures. The tax expenditures to be included in each report shall be selected in a manner that ensures that all of the tax expenditures specified in subdivision (d) will be included in a report at least once every eight years.

*(f) Notwithstanding any provision of this article to the contrary, if resources are not available to make any report under this section based upon a dynamic revenue analysis, the Department of Finance shall provide the report based upon a static revenue analysis.*

13314. On or before March 1, 2007, and on or before March 1st of each year thereafter, the Legislative Analyst shall review the reports provided pursuant to Sections 13311 to 13313, inclusive, and make recommendations to the Legislature as to which tax expenditures should be modified or repealed.

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